

DETROIT/WAYNE COUNTY  
PORT AUTHORITY

**FINANCIAL STATEMENTS**

**September 30, 2004 and 2003**

**George Johnson  
& Company**  

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# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Detroit / Wayne County Port Authority</b>	County <b>Wayne</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>11/12/04</b>	Date Accountant Report Submitted to State: <b>12/1/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

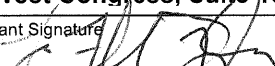
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>George Johnson &amp; Company</b>			
Street Address <b>243 West Congress, Suite 1080</b>	City <b>Detroit</b>	State <b>MI</b>	ZIP <b>48226</b>
Accountant Signature 		Date <b>8/2/05</b>	

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# George Johnson & Company

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## **INDEPENDENT AUDITORS' REPORT**

November 12, 2004

To the Board of Directors  
Detroit/Wayne County Port Authority  
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Detroit/Wayne County Port Authority (the "Authority") as of, and for the years ended, September 30, 2004 and 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2004 and 2003, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and schedule of revenue and expenditures - budget and actual (operating fund) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CERTIFIED PUBLIC ACCOUNTANTS

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)****September 30, 2004**

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This section of the annual report of the Detroit/Wayne County Port Authority (the "Authority") presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2004. Please read it in conjunction with the Authority's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

The fiscal year ended September 30, 2004 was another period of operational and financial improvements. During the year, revenue increased by more than \$2.4 million, and program expenses increased by approximately \$691,000. As a result, net assets increased by approximately \$2.2 million.

Key successes for the Authority this past year include the following:

- . Playing an instrumental role in the issuance of \$43 million of bonds for the construction of a new parking structure for General Motors, adjacent to its Renaissance Center World Headquarters in Detroit.
2. Acquisition of land from General Motors for the new Public Dock and Terminal project using a State of Michigan \$2.7 million CMI grant.

In addition, the Authority expects to experience the following successes in the year to come:

1. A \$450,000 TSA port security grant to purchase new patrol vessels for the Detroit Police Department and the Wayne County Sheriff Department marine divisions.
2. A \$400,000 federal Environmental Protection Agency brownfield grant to study brownfield redevelopment along the Detroit River.
3. A \$750,000 federal grant for site development at the new Public Dock and Terminal site.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 7 and 8) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 9 and 11) are considered fund financial statements. A further discussion of each type of statement follows.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**September 30, 2004

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**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)****Government-Wide Financial Statements**

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the Authority's net assets and how they have changed. Net assets represent the difference between the Authority's assets and liabilities, and they represent one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Authority's most significant funds, not the Authority as a whole. Funds are accounting devices that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

Most of the Authority's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 10 and 12 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 13, explain some of the information in the financial statements and provide more detailed data. A comparison of the Authority's operating fund revenue and expenditures to its budget is provided on page 22.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2004

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net assets as of September 30, 2004 and 2003:

**Table 1**Statements of Net Assets**September 30, 2004 and 2003***(in thousands of dollars)*

	<b>2004</b>	<b>2003</b>
<b>Assets:</b>		
Cash	\$ 636.9	\$ 834.5
Cash reserve for bond issuance	-0-	500.0
Accounts receivable	204.3	236.9
Capital assets	2,728.1	40.2
Other assets	20.9	337.5
<b>Total Assets</b>	<b>3,590.2</b>	<b>1,949.1</b>
<b>Liabilities:</b>		
Long-term liabilities	-0-	500.0
Other liabilities	237.3	328.6
<b>Total Liabilities</b>	<b>237.3</b>	<b>828.6</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	2,728.1	40.2
Unrestricted	624.8	,080.3
<b>Total Net Assets</b>	<b>\$ 3,352.9</b>	<b>\$ 1,120.5</b>

Accounts receivable balances are reviewed for collectibility and are written off as necessary. As of September 30, 2004, no allowance is considered necessary. The \$500,000 escrow account to hold funds in case of a default in conjunction with the bond issuance was returned to the State of Michigan when the issuance was cancelled. The capital asset balance reflects the purchase of land for the new Public Dock and Terminal.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

September 30, 2004

**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)**

Table 2 reflects the condensed statements of activities for the years ended September 30, 2004 and 2003:

**Table 2****Statements of Activities****For the Years Ended September 30, 2004 and 2003***(in thousands of dollars)*

	<u>2004</u>	<u>2003</u>
<b>Revenue:</b>		
Program revenue:		
Contracts and grants	\$ 3,878.9	\$ ,473.0
General revenue:		
Administrative revenue	176.9	161.1
Other revenue	<u>91.7</u>	<u>89.6</u>
<b>Total Revenue</b>	<b>4,147.5</b>	<b>1,723.7</b>
<b>Expenses:</b>		
Import and export promotional programs	<u>1,915.1</u>	<u>1,224.6</u>
<b>Net Increase in Net Assets</b>	<b>2,232.4</b>	<b>499.1</b>
Net Assets, Beginning of Year	<u>1,120.5</u>	621.4
<b>Net Assets, End of Year</b>	<b><u>\$ 3,352.9</u></b>	<b><u>\$ 1,120.5</u></b>

Revenue increased significantly due to the State of Michigan CMI grant to purchase land for the new Public Dock and Terminal. The revenue from the other contracts and grants was relatively unchanged from the prior year.

The land purchase will further increase the Authority's presence on the Detroit River along the new Riverwalk Conservancy.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**September 30, 2004

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**ECONOMIC FACTORS**

The Board of Directors and management have worked diligently to improve the financial position of the Authority and to implement plans and projects that will reduce the dependency for tax-based funding to meet administrative expenses. The Port of Detroit project to acquire the Detroit Marine Terminals property at the foot of Clark Street and Jefferson in Detroit and enter into an Operating Agreement with a new company will be finalized by the spring of 2005, resulting in the transfer of property concurrent with the opening of the Port of Detroit. This project will substantially increase revenue, promote economic development in the port district, and greatly improve commerce within the region.

The land site for the new Public Dock and Terminal Facility was purchased to showcase the new Riverwalk Conservancy, adjacent to General Motors' World Headquarters at the foot of Bates Street. The project manager, architects, and engineers have been selected. Site surveys and the design of the seawall dock have begun, and construction is estimated to begin in the spring of 2005. This project will greatly promote tourism in southeast Michigan and have a very significant economic impact on the region. The Authority plans on moving its offices into the new Terminal Facility and reducing administrative expenses by terminating its current office lease.

The Authority has prioritized waterfront economic development and is using its legislatively enabled powers to aggressively seek grant monies from federal and state agencies to fund all categories of projects, promoting commerce, tourism, and environmental stewardship. This coming year, the Authority will receive and spend over \$9 million in grant monies that have been awarded for projects along the Detroit waterfront.

Presently, all of the projects that will have a significant economic impact for the Authority are in the implementation stages, and the full benefits will not be fully realized in the immediate future. The dependency of the Authority for continued tax-based funding for the administrative function is critical to the ongoing success of the Authority.

**FINANCIAL CONTACT**

This financial report is designed to present its users with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer's office of the Detroit/Wayne County Port Authority at 8109 East Jefferson, Detroit, Michigan 48214.

**STATEMENTS OF NET ASSETS****September 30, 2004 and 2003**

	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
<b>Assets:</b>		
Cash	\$ 636,926	\$ 834,499
Cash reserve for bond issuance (Note E)	-0-	500,000
Accounts receivable (no allowance considered necessary)	204,324	236,936
Prepaid expenses	7,816	9,581
Deposits	13,000	13,000
Capital assets (Note C):		
Nondepreciable capital assets	2,700,000	-0-
Depreciable capital assets, net	28,086	40,219
Unamortized bond issuance costs (Note G)	-0-	314,903
<b>Total Assets</b>	<b>3,590,152</b>	<b>1,949,138</b>
<b>Liabilities:</b>		
Accounts payable	13,107	5,616
Accrued expenses	224,104	323,051
Long-term liabilities due or expected to be paid in more than one year:		
Bond escrow payable (Note E)	-0-	500,000
<b>Total Liabilities</b>	<b>237,211</b>	<b>828,667</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	2,728,086	40,219
Unrestricted	624,855	1,080,252
<b>Total Net Assets</b>	<b>\$ 3,352,941</b>	<b>\$ 1,120,471</b>

See notes to financial statements.

**STATEMENTS OF ACTIVITIES****For the Years Ended September 30, 2004 and 2003**

	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
<b>Expenses:</b>		
Import and export promotional programs:		
Salaries, wages, and employee benefits	\$ 803,446	\$ 606,106
Contractual and professional services	440,220	75,258
Facility operations and maintenance	172,817	160,286
Office expenses	84,403	79,804
Site reclamation and redevelopment	158,169	185,280
Travel and automotive expenses	85,503	39,589
Conferences, dues, and subscriptions	41,592	28,963
Marketing and promotion	116,231	34,408
Depreciation (Note C)	12,740	14,856
<b>Total Program Expenses</b>	<b>1,915,121</b>	<b>1,224,550</b>
<b>Program Revenue:</b>		
Contracts and grants (Note F)	3,878,904	1,473,000
<b>Net Program Revenue</b>	<b>1,963,783</b>	<b>248,450</b>
<b>General Revenue:</b>		
Administrative revenue (Note B)	176,856	161,122
Rental income	83,635	82,820
Interest and other income	8,196	6,717
<b>Total General Revenue</b>	<b>268,687</b>	<b>250,659</b>
<b>Net Increase in Net Assets</b>	<b>2,232,470</b>	<b>499,109</b>
Net Assets, Beginning of Year	120,471	621,362
<b>Net Assets, End of Year</b>	<b>\$ 3,352,941</b>	<b>\$ 1,120,471</b>

See notes to financial statements.

**BALANCE SHEETS - GOVERNMENTAL FUNDS**

September 30, 2004 and 2003

	<u>2004</u>		<u>2003</u>		
	<u>Operating Fund</u>	<u>Total All Funds</u>	<u>Operating Fund</u>	<u>Debt Service Fund</u>	<u>Total All Funds</u>
<b>ASSETS</b>					
Cash	\$ 636,926	\$ 636,926	\$ 834,499	\$ -0-	\$ 834,499
Cash reserve for bond issuance (Note E)		-0-		500,000	500,000
Accounts receivable (no allowance considered necessary)	204,324	204,324	236,936		236,936
Prepaid expenses	7,816	7,816	9,581		9,581
Deposits	13,000	13,000	13,000		13,000
<b>Total Assets</b>	<u>\$ 862,066</u>	<u>\$ 862,066</u>	<u>\$ 1,094,016</u>	<u>\$ 500,000</u>	<u>\$ 1,594,016</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 13,107	\$ 13,107	\$ 5,616	\$ -0-	\$ 5,616
Accrued expenses	197,971	197,971	323,051		323,051
<b>Total Liabilities</b>	<u>211,078</u>	<u>211,078</u>	<u>328,667</u>	<u>-0-</u>	<u>328,667</u>
<b>Fund Balances:</b>					
Reserved for debt service		-0-		500,000	500,000
Unreserved	650,988	650,988	765,349		765,349
<b>Total Fund Balances</b>	<u>650,988</u>	<u>650,988</u>	<u>765,349</u>	<u>500,000</u>	<u>1,265,349</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 862,066</u>	<u>\$ 862,066</u>	<u>\$ 1,094,016</u>	<u>\$ 500,000</u>	<u>\$ 1,594,016</u>

See notes to financial statements.

**RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO  
STATEMENTS OF NET ASSETS****September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Total Fund Balances, Governmental Funds	\$ 650,988	\$ ,265,349
Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:		
Nondepreciable capital assets	2,700,000	-0-
Depreciable capital assets:		
Cost	217,155	216,548
Less: Accumulated depreciation	(189,069)	(176,329)
Long-term assets applicable to governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:		
Unamortized bond issuance costs	-0-	314,903
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:		
Accrued expenses	(26,133)	-0-
Bond escrow payable	<u>-0-</u>	<u>(500,000)</u>
<b>Total Net Assets, Governmental Activities</b>	<b><u>\$ 3,352,941</u></b>	<b><u>\$ 1,120,471</u></b>

See notes to financial statements.

**STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Years Ended September 30, 2004 and 2003

	2004			2003		
	Operating Fund	Debt Service Fund	Total All Funds	Operating Fund	Debt Service Fund	Total All Funds
<b>Revenue:</b>						
Contracts and grants (Note F)	\$ 3,878,904	\$ -0-	\$ 3,878,904	\$ 1,473,000	\$ -0-	\$ 1,473,000
Administrative revenue (Note B)	176,856		176,856	161,122		161,122
Rental income	83,635		83,635	82,820		82,820
Interest and other income	8,196		8,196	6,717		6,717
<b>Total Revenue</b>	<b>4,147,591</b>	<b>-0-</b>	<b>4,147,591</b>	<b>1,723,659</b>	<b>-0-</b>	<b>1,723,659</b>
<b>Expenditures:</b>						
Current:						
Salaries, wages, and employee benefits	777,313		777,313	606,106		606,106
Contractual and professional services	125,317		125,317	390,161		390,161
Facility operations and maintenance	172,817		172,817	160,286		160,286
Office expenses	84,403		84,403	79,804		79,804
Site reclamation and redevelopment	158,169		158,169	185,280		185,280
Travel and automotive expenses	85,503		85,503	39,589		39,589
Conferences, dues, and subscriptions	41,592		41,592	28,963		28,963
Marketing and promotion	116,231		116,231	34,408		34,408
Capital outlay (Note C)	2,700,607		2,700,607	7,775		7,775
Debt service:						
Repayment of bond escrow (Note E)		500,000	500,000			-0-
<b>Total Expenditures</b>	<b>4,261,952</b>	<b>500,000</b>	<b>4,761,952</b>	<b>1,532,372</b>	<b>-0-</b>	<b>1,532,372</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>(114,361)</b>	<b>(500,000)</b>	<b>(614,361)</b>	<b>191,287</b>	<b>-0-</b>	<b>191,287</b>
<b>Other Financing Sources:</b>						
Issuance of bond escrow proceeds (Note E)			-0-		500,000	500,000
<b>Net Increase (Decrease) in Fund Balances</b>	<b>(114,361)</b>	<b>(500,000)</b>	<b>(614,361)</b>	<b>191,287</b>	<b>500,000</b>	<b>691,287</b>
<b>Fund Balances, Beginning of Year</b>	<b>765,349</b>	<b>500,000</b>	<b>1,265,349</b>	<b>574,062</b>		<b>574,062</b>
<b>Fund Balances, End of Year</b>	<b>\$ 650,988</b>	<b>\$ -0-</b>	<b>\$ 650,988</b>	<b>\$ 765,349</b>	<b>\$ 500,000</b>	<b>\$ 1,265,349</b>

See notes to financial statements.

**RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF  
ACTIVITIES**

For the Years Ended September 30, 2004 and 2003

	2004	2003
Net Increase (Decrease) in Fund Balances, Governmental Funds	\$ (614,361)	\$ 691,287
Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:		
Capital outlays are reported as expenditures in governmental funds. However, in the statements of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. During the years presented, these amounts are as follows:		
Capital outlay	2,700,607	7,775
Less: Depreciation expense	(12,740)	(14,856)
Costs incurred in issuing long-term debt are reported as expenditures, and the write-off of such costs is reported as a reduction of expenditures, in governmental funds. However, in the statements of activities, such costs and write-offs increase and decrease, respectively, long-term assets in the statements of net assets. During the years presented, these amounts are as follows:		
Bond issuance costs	-0-	314,903
Write-off of bond issuance costs for bonds not issued	(314,903)	-0-
Certain expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. During the years presented, these amounts are as follows:		
Salaries and wages	(26,133)	-0-
Proceeds issued on long-term debt are reported as a financing source, and repayment on long-term debt is reported as an expenditure, in governmental funds, but the proceeds and repayment increase and decrease, respectively, long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:		
Issuance of bond escrow proceeds	-0-	(500,000)
Repayment of bond escrow	500,000	-0-
<b>Net Increase in Net Assets, Governmental Activities</b>	<b>\$ 2,232,470</b>	<b>\$ 499,109</b>

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2004 and 2003

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities and Purpose**

The Detroit/Wayne County Port Authority (the "Authority") was created by the Port Authority Act of 1978. The legislation enables the Authority to enter into contracts for the acquisition, improvement, enlargement, or extension of port facilities. The mission of the Authority is to plan, develop, and foster economic and recreational growth, through environmental stewardship, in promoting Detroit and southeast Michigan as an import and export freight transportation and distribution hub for the United States, Canada, and the world marketplace.

For financial reporting purposes, the Authority is not a component unit of any other governmental entity. There are no fiduciary funds or component units included in the accompanying financial statements.

**Basis of Presentation**

The financial statements of the Authority consist of government-wide financial statements, which include the statements of net assets and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

**Government-Wide Financial Statements**

The government-wide financial statements report information about all of the Authority's assets, liabilities, net assets, revenue, and expenses, similar to the financial statements of non-governmental enterprises.

**Fund Financial Statements**

For purposes of the fund financial statements, the accounts of the Authority are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenue, and expenditures. The various funds are summarized by type in the fund financial statements. The following funds are used by the Authority:

**Operating Fund**

The operating fund is the general operating fund of the Authority. It is used to account for all financial resources other than those required to be accounted for in another fund.



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

September 30, 2004 and 2003

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (continued)**

**Fund Financial Statements (continued)**

**Debt Service Fund**

The debt service fund accounts for the servicing of general long-term obligations not being financed by any other funds.

**Basis of Accounting**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred. Contracts and grants provided to support program activities are classified as program revenue. Administrative, rental, investment, and other income not directly associated with program services provided are classified as general revenue.

**Fund Financial Statements**

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable.

In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

**Tax-Exempt Status**

No provision has been established for income taxes since the Authority is exempt from income taxes under Internal Revenue Code section 501(c)(4).

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

September 30, 2004 and 2003

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Cash**

The Authority's cash deposits are held in financial institutions insured as members of the Federal Deposit Insurance Corporation ("FDIC"), or otherwise insured, in the Authority's name. As of September 30, 2004 and 2003, the Authority's carrying amount of deposits and bank balances, and the bank balances covered by federal depository or other insurance, are as follows:

	<u>2004</u>	<u>2003</u>
Carrying amount of deposits	\$ 636,926	\$ 834,499
Bank balances	<u>\$ 666,730</u>	<u>\$ 625,173</u>
Bank balances covered by federal depository or other insurance	<u>\$ 400,748</u>	<u>\$ 397,787</u>

**Capital Assets**

Capital assets are recorded at historical cost. The Authority capitalizes all expenditures for furniture, fixtures, and equipment in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Expenditures for maintenance and repairs are charged to expense. Renewals or betterment which extend the life or increase the value of the properties are capitalized and depreciated over the remaining useful lives of the related assets.

**Compensated Absences**

Vacation time is accrued in the government-wide financial statements as earned. Employees are allowed to carry over a maximum of 40 days. Upon termination, employees are entitled to their unused accumulated vacation time.

Sick time is accrued in the government-wide financial statements as earned. Employees are allowed to carry over all sick time. Upon termination, employees forfeit their unused accumulated sick time.

In the fund financial statements, only the matured liability for compensated absences is recorded. The total liability for vacation time is reported in the government-wide financial statements.

**Reclassifications**

Certain reclassifications have been made to the 2003 financial statements to conform to classifications used in 2004.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

September 30, 2004 and 2003

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Concentration of Credit Risk**

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of cash and accounts receivable.

The Authority places its cash with two high credit qualified financial institutions. The amount on deposit in one institution exceeds the \$100,000 limit that is insured by the FDIC. The Authority's remaining cash is invested at a second financial institution which, in management's estimation, is not at risk of financial instability and which insures the entire balance against possible fraud or theft. The Authority's accounts receivable are due principally from the City of Detroit, the State of Michigan, and Greater Detroit Foreign Trade Zone, Inc. ("GDFTZ").

**NOTE B - ADMINISTRATIVE REVENUE**

The Authority provides administrative services for the GDFTZ. Total fees were \$176,856 and \$161,122 for the years ended September 30, 2004 and 2003, respectively.

**NOTE C - CAPITAL ASSETS**

Nondepreciable capital asset activity for the year ended September 30, 2004 is as follows:

	<u>Land</u>
Balance, October 1, 2003	\$ -0-
Acquisitions	<u>2,700,000</u>
<b>Balance, September 30, 2004</b>	<b><u>\$ 2,700,000</u></b>

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

September 30, 2004 and 2003

**NOTE C - CAPITAL ASSETS (CONTINUED)**

Depreciable capital asset activity for the years ended September 30, 2004 and 2003 is as follows:

	<u>Furniture and Fixtures</u>	<u>Office Equipment</u>	<u>Total</u>
<b>Cost:</b>			
Balance, October 1, 2002	\$ 84,981	\$ 136,067	\$ 221,048
Acquisitions	724	7,051	7,775
Less: Dispositions		(12,275)	(12,275)
<b>Balance, September 30, 2003</b>	<b>85,705</b>	<b>130,843</b>	<b>216,548</b>
Acquisitions	607		607
<b>Balance, September 30, 2004</b>	<b>\$ 86,312</b>	<b>\$ 130,843</b>	<b>\$ 217,155</b>
<b>Accumulated Depreciation:</b>			
Balance, October 1, 2002	\$ 70,315	\$ 103,433	\$ 173,748
Depreciation expense	3,793	11,063	14,856
Less: Dispositions		(12,275)	(12,275)
<b>Balance, September 30, 2003</b>	<b>74,108</b>	<b>102,221</b>	<b>176,329</b>
Depreciation expense	3,712	9,028	12,740
<b>Balance, September 30, 2004</b>	<b>\$ 77,820</b>	<b>\$ 111,249</b>	<b>\$ 189,069</b>
<b>Net Depreciable Capital Assets:</b>			
Balance, September 30, 2003	\$ 11,597	\$ 28,622	\$ 40,219
Balance, September 30, 2004	\$ 8,492	\$ 19,594	\$ 28,086

**NOTE D - LEASES**

The Authority leases a building for office space under an operating lease. The lease has a five-year renewal option exercisable through August 2006, with the ability to terminate the lease at any time with six months' notice.

The Authority leases office equipment under an operating lease. The term of this lease expires in December 2005.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)****September 30, 2004 and 2003****NOTE D - LEASES (CONTINUED)**

The following is a schedule by years of future minimum lease payments under operating leases as of September 30, 2004:

<u>For the Year Ending September 30</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
2005	\$ 115,000	\$ 2,865	\$ 117,865
2006	100,000	1,194	101,194
			<u>\$ 219,059</u>

Rental expense under operating leases for the years ended September 30, 2004 and 2003 was \$109,684 and \$104,672, respectively.

**NOTE E - DEBT SERVICE RESERVE**

During the year ended September 30, 2003, the Authority was in the process of issuing revenue bonds, as discussed in Note G. In conjunction with the bond issuance, the Authority was required by the underwriter to establish a \$500,000 escrow account to hold the funds in case of default.

On September 12, 2003, the Authority entered into a general loan contract with the Michigan Department of Transportation ("MDOT") to fund the account. MDOT loaned \$500,000 to the Authority, which was to be repaid after the last bond payment was made. Interest earned on the escrow account was to be remitted to MDOT. During the year ended September 30, 2004, the Authority decided not to issue any bonds. The Authority has repaid the loan to MDOT.

**NOTE F - CONTRACTS AND GRANTS**

The Authority has entered into contracts with the following governmental entities from which the Authority receives operating funds:

**State of Michigan**

The Authority's contract with MDOT is renewed annually unless a notice to terminate is requested by either party. The amount of funding for future years under the contract will be negotiated annually.

**County of Wayne**

The Authority receives a line-item appropriation in the budget of the County of Wayne (the "County"). The amount of funding for future years under the appropriation is negotiated annually.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**September 30, 2004 and 2003

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**NOTE F - CONTRACTS AND GRANTS (CONTINUED)****County of Wayne (continued)**

On January 23, 2003, the Authority entered into a one-time contract with the County to provide funding for the upgrading and refurbishing of the marine terminal facility.

**City of Detroit**

The Authority's contract with the City of Detroit is renewed annually unless a notice to terminate is requested by either party. The amount of funding for future years under the contract will be negotiated annually.

The Authority has also obtained the following grants:

**Federal Highway Grant**

The Authority received a reimbursement grant from MDOT to perform environmental studies on specific properties. For the year ended September 30, 2004, the Authority incurred \$16,250 of reimbursable costs, which was recorded as grant revenue.

**Site Reclamation Program**

The Authority received a \$150,000 reimbursement grant from the Michigan Department of Environmental Quality ("MDEQ") to perform environmental surveys on specific properties. For the year ended September 30, 2003, the Authority incurred \$150,000 of reimbursable costs, which was recorded as grant revenue. During the year ended September 30, 2004, the MDEQ reduced the amount of reimbursement to \$132,874. The Authority recorded an adjustment of \$17,126 to revenue for the year ended September 30, 2004 to reflect this reduction.

**Waterfront Redevelopment**

On July 3, 2003, the Authority received a \$3 million reimbursement grant from the MDEQ for the purpose of purchasing property to enhance public access to the riverfront through improvements to the infrastructure. The grant agreement expired on August 4, 2004. For the years ended September 30, 2004 and 2003, the Authority incurred \$2,814,780 and \$8,000 of reimbursable costs, respectively.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

September 30, 2004 and 2003

**NOTE F - CONTRACTS AND GRANTS (CONTINUED)**

Total contract and grant revenue is summarized as follows:

	<u>2004</u>	<u>2003</u>
State of Michigan	\$ 500,000	\$ 500,000
County of Wayne:		
Operating	315,000	315,000
Marine terminal facility	-0-	250,000
City of Detroit	250,000	250,000
Federal highway grant	16,250	-0-
Site reclamation program	(17,126)	150,000
Waterfront redevelopment	<u>2,814,780</u>	<u>8,000</u>
	<u><u>\$ 3,878,904</u></u>	<u><u>\$ 1,473,000</u></u>

**NOTE G - BOND ISSUANCE COSTS**

The Authority is negotiating with its underwriter to issue \$5,950,000 in variable rate demand revenue bonds to finance the acquisition of leasehold interests of a port terminal facility and to defease existing bonds issued to finance a port facility. The Authority will use proceeds from a management and operating agreement with a cargo terminal facility company to make the bond payments. As of September 30, 2003, the Authority had incurred \$314,903 in bond issuance costs. During the year ended September 30, 2004, the Authority decided not to issue any bonds. The discussions with the cargo terminal facility company are ongoing with different financing options. The bond issuance costs capitalized during the year ended September 30, 2003 have been written off during the year ended September 30, 2004.

**NOTE H - RISK MANAGEMENT**

Given the normal activities of the Authority and the relatively low rate of claims and lawsuits experienced in the Authority's past history, the risk involved in the Authority's operations is minimal and, in management's opinion, is sufficiently covered by insurance policies.

**SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL -  
OPERATING FUND (UNAUDITED)****For the Year Ended September 30, 2004**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance with Final Budget</b>
<b>Revenue:</b>				
Contracts and grants	\$ 3,765,000	\$ 3,765,000	\$ 3,878,904	\$ 113,904
Administrative revenue	176,856	176,856	176,856	-0-
Rental income	88,865	88,865	83,635	(5,230)
Interest and other income	2,374	2,374	8,196	5,822
<b>Total Revenue</b>	<b>4,033,095</b>	<b>4,033,095</b>	<b>4,147,591</b>	<b>114,496</b>
<b>Expenditures:</b>				
Current:				
Salaries, wages, and employee benefits	808,814	808,814	777,313	31,501
Contractual and professional services	142,500	142,500	125,317	17,183
Facility operations and maintenance	168,086	168,086	172,817	(4,731)
Office expenses	107,480	107,480	84,403	23,077
Site reclamation and redevelopment			158,169	(158,169)
Travel and automotive expenses	45,660	45,660	85,503	(39,843)
Conferences, dues, and subscriptions	21,255	21,255	41,592	(20,337)
Marketing and promotion	39,300	39,300	116,231	(76,931)
Capital outlay	2,700,000	2,700,000	2,700,607	(607)
<b>Total Expenditures</b>	<b>4,033,095</b>	<b>4,033,095</b>	<b>4,261,952</b>	<b>(228,857)</b>
<b>Net Increase (Decrease) in Fund Balance</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ (114,361)</b>	<b>\$ (114,361)</b>